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Minnesota’s health plan industry releases 2010 financial results

ST.PAUL, Minn. — Health costs per person in Minnesota rose only 2.6 percent in 2010, about half the national average. Key factors in controlling costs were innovations by Minnesota’s health plans – for example, more effective management of care for those with chronic diseases – and reduced demand for health care in a slow economy.

Average operating margin reaches 1 percent

Year	Operating Margin as % of revenue
2010	1.5%
2009	0.8%
2008	0.4%
2007	(0.5%)
2006	(0.6%)
2005	(0.6%)

The slowdown in per person medical care spending pushed the industry-wide operating margin to 1.5 percent of premium revenue. Health plan industry revenue was \$19.3 billion and the year ended with operating income of \$293.2 million.

Investment income of \$135.7 million brought the total 2010 contribution to reserves to 2 percent of total revenue (\$385.7 million). Many standards exist to ensure that health plans have reserves for continuous payment of members’ medical bills and for investing in technology and other improvements – even if there are unexpected catastrophic claims, natural disasters or market instability. Reserves have begun to stabilize after falling \$152 million in 2008. Without these reserves, health plans would be at risk for the type of crisis which recently crippled the banking industry.

Although operating margins on state public programs vary from year to year, the 2010 operating margin was 3.84 percent of revenue, or \$130.8 million. The 10-year average operating margin is 1.77 percent of revenue. The state’s three longest running programs experienced wide swings in operating margins from 3.89 percent in 2004 to 0.32 percent (2005), a loss of -5.4 percent (2006), a loss of -2.1 percent (2007) and a gain of 0.61 percent (2008.)

Operating margins also vary significantly among state programs within the year. For example, MinnesotaCare lost -5.85 percent and General Assistance Medical Care lost -0.74 percent in 2010, and Prepaid Medical Assistance and Minnesota Senior Health Options posted operating gains of 9.95 percent and 2.44 percent, respectively.

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State rates reduced for 2011; other reforms possible

Health plans and the Minnesota Department of Human Services have worked to establish rates for 2011 that reflect the lower per person medical costs. Managed care plans today are receiving lower rates than the state set for 2010. The lower rates are projected to reduce state spending by at least \$64 million in the next biennial budget.

Julie Brunner, executive director of the Minnesota Council of Health Plans, also said the health plans are working with the Dayton administration and legislators to create new models of payment that could reduce costs while maintaining quality.

“The first rule of reform should be to create a better health system, not just a cheaper one,” said Brunner. “Minnesota health plans have contributed to innovations that have made this state a national model of quality health, broad access and effective cost controls. That’s the record we are building on. We are supportive of reforms to create new models of payment, including competitive bidding, which would reduce expensive regulatory burdens and make health plan cost data easier to use.”

Medical spending reaches \$17.4 billion

Overall, payments by Minnesota’s health plans on behalf of their members for doctor visits, prescription drugs, hospital stays and other medical services totaled more than \$17.4 billion in 2010, or 90.2 cents of every premium dollar.

Trends in employer-sponsored and individual medical care spending for Minnesotans from 2009 to 2010 include increases of:

- 3 percent in physician services
- 5 percent in outpatient services
- 3.6 percent in emergency services
- 7 percent in chemical dependency and mental health services

In addition, the trends show decreases of -1 percent in inpatient hospital services and -3.1 percent in pharmacy and medical supplies spending.

Enrollment remains strong, Minnesota’s has nation’s third lowest uninsured rate

Total enrollment in Minnesota’s health plans grew nearly 1 percent to 4.3 million. Minnesota has the third lowest uninsured rate in the nation at 9 percent of residents. Enrollment in state public programs increased, while fewer individuals were enrolled in small group coverage. The data show:

- Government programs combined enrollment in Medical Assistance, MinnesotaCare and Minnesota Senior Health Options increased 6 percent to 528,939.
- Companies with 50 or fewer employees ended group coverage for more than 15,000 individuals, decreasing small group coverage by -4 percent. Last year the drop was -10 percent.

State statute requires Minnesota’s health plans to submit reports on their financial status. The reports are independently audited to ensure they meet requirements of the Financial Accounting Standards Board, and definitions and standards promulgated by the National Association of Insurance Commissioners and the State of Minnesota.